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February 14, 2005

VIA HAND DELIVERY

Chairman Pat Miller
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

LATE FILED

Re In Re. Citizens Telecommunications Company of Tennessee, LLC's d/b/a
Frontier Communications of Tennessee
Docket No.. 03-00211

Dear Chairman Miller

Enclosed is an original and thirteen (13) copies of the following:

1. Agreed Protective Order,
2. Testimony of J. Michael Swatts, and
3. Testimony of Randall J. Brockmann.

Please note that we are filing the exhibit to the Brockman testimony (Exs. A and 1) under seal pursuant to the Protective Order

By copy of this letter we are sending a copy of the above-referenced documents to LaDon Baltimore by hand delivery

If you have any questions please do not hesitate to give me a call.

Sincerely,


Guilford F. Thornton, Jr.

GFT/sef
Cc: LaDon Baltimore, Esq.

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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:)
)
CITIZENS TELECOMMUNICATIONS)
COMPANY OF TENNESSEE, LLC,) Docket No. 03-00211
PETITION FOR EXEMPTION UNDER)
TENN. CODE ANN. § 65-5-208(c))
)
)
Petitioner,)
)
)

AGREED PROTECTIVE ORDER

To expedite the flow of filings, exhibits and other materials and to facilitate the prompt resolution of disputes as to the confidentiality of the material, adequately protect material entitled to be kept confidential and to ensure that protection is afforded only to material so entitled, the Tennessee Regulatory Authority ("TRA") hereby orders that

1 For the purpose of this Protective Order (the "Order"), proprietary or confidential information, hereinafter referred to as "CONFIDENTIAL INFORMATION" shall mean documents and information in whatever form which the producing party, in good faith, deems to contain or constitute trade secrets, confidential research, development or over sensitive information, and which has been specifically designated by the producing party. A producing party is defined as the party creating the confidential information as well as the party having actual physical possession of information produced pursuant to this Order. All summaries, notes, extracts, compilations or other direct or indirect reproduction from or of any protected materials, shall be entitled to protection under this Order. Documents containing CONFIDENTIAL INFORMATION shall be specifically marked as confidential on the cover with the accompanying page numbers listed either on the cover or on a subject index page. Each document containing CONFIDENTIAL INFORMATION must be highlighted under or through the passages of information to clearly identify the CONFIDENTIAL INFORMATION without defacing the information or rendering it undecipherable. The document must be accompanied by

proof of confidentiality, that is, an affidavit showing the cause of protection under this Order. The Affidavit may be reviewed by the Pre-Hearing Officer, Administrative Law Judge or the Authority for compliance with this paragraph. Any document so designated shall be handled in accordance with this Order. The provisions of any document containing CONFIDENTIAL INFORMATION may be challenged under Section 11 of this Order.

2 Any individual or company subject to this Order, including producing parties or person reviewing CONFIDENTIAL INFORMATION, shall act in good faith in discharging their obligations hereunder. Parties or non-parties subject to this Order shall include parties which are allowed by the TRA to intervene subsequent to the date of entry of this Protective Order.

3 CONFIDENTIAL INFORMATION shall be disclosed only to the following persons:

- (a) counsel of record for the parties in this case and associates, secretaries, and paralegals actively engaged in assisting counsel of record in this and the designated related proceedings.
- (b) TRA Directors and members of the staff of the TRA, and
- (c) outside consultants and/or expert witnesses employed or retained by the parties or their counsel, who have access to CONFIDENTIAL INFORMATION solely for evaluation, testing, testimony, preparation for trial or other services related to this docket, provided that to the extent that any party seeks to disclose CONFIDENTIAL INFORMATION to any outside consultant or expert witness who is to testify on that party's behalf, the party shall give one (1) day written notice to the producing party of intention to disclose CONFIDENTIAL INFORMATION. During such notice period, the producing party may move to prevent or limit disclosure for cause, in which case no disclosure shall be made until the Tennessee Regulatory Authority, the Pre-Hearing Officer, the Administrative Law Judge or court rules on the motion. Any such motion shall be filed within three (3) days after service of the notice. Any response shall be served within three (3) days after service of the motion. Pre-Hearing conferences may be called to confer with the parties on the Motions to Limit Disclosure. All service shall be by hand delivery or by facsimile.

Under no circumstances shall any CONFIDENTIAL INFORMATION be disclosed to or discussed with anyone associated with the marketing of services in competition with the products, goods or services of the producing party.

4 Prior to disclosure of CONFIDENTIAL INFORMATION to any TRA Director, member of the TRA staff, employee, officer or director of the parties, including any employees of the Consumer Advocate Division, the counsel representing the party who is to receive the CONFIDENTIAL INFORMATION shall provide a copy of this Order to the recipient Director, staff member, employee, officer, or director, who shall be bound by the terms of this Order. Prior to disclosure of CONFIDENTIAL INFORMATION to any outside consultant or expert witness employed or retained by a party, counsel shall provide a copy of this Order to such outside consultant or expert witness, who shall sign an affidavit in the form of that attached to this Order attesting that he or she has read a copy of this Order, that he or she understands and agrees to be bound by the terms of this Order, and that he or she understands that unauthorized disclosure of the documents stamped CONFIDENTIAL constitutes a violation of this Order. This affidavit shall be signed in the presence of and be notarized by a notary public. Counsel of record for each party shall provide the party a copy of each such Affidavit and shall keep the Affidavits executed by the parties' experts or consultants on file at their respective offices.

5 If any party or non-party subject to this Order inadvertently fails to designate documents CONFIDENTIAL in accordance with the provisions of this Order when producing such documents, such failure shall not constitute a waiver of confidentiality, provided the party, or non-party who has produced the document shall notify the recipient of the document in writing within five (5) days of discovery of such inadvertent failure to designate the document as CONFIDENTIAL. At that time, the recipients will immediately treat the subject document as CONFIDENTIAL. In no event shall the TRA be liable for any claims or damages resulting from the disclosure of a document while not so designated as CONFIDENTIAL. An inadvertent failure to designate a document as CONFIDENTIAL shall not, in any way, affect the TRA's determination as to whether the document is entitled to CONFIDENTIAL status.

6 If any party or non-party subject to this Order inadvertently fails to designate documents as CONFIDENTIAL in accordance with the provisions of this Order when producing such documents and such failure is not discovered in time to provide five (5) day notification to the recipient of the confidential nature of the documents referenced in the paragraph above, the

failure shall not constitute a waiver of confidentiality and a party by written motion or by oral motion at a Pre-Hearing Conference called for the purpose of determining whether to designate the documents as confidential or at the Hearing on the merits may request designation of such documents as CONFIDENTIAL, and if the motion is granted by the Pre--Hearing Officer, Administrative Judge, or the Authority, the recipients shall immediately treat the subject documents as CONFIDENTIAL. The Tennessee Regulatory Authority, the Pre - Hearing Officer or Administrative Law Judge may also, at his or her discretion, either before or during the Pre-Hearing Conference or hearing on the merits of the case, allow information to be designated CONFIDENTIAL and treated as such in accordance with the terms of this Order.

7. Any papers filed in this proceeding that contain, quote, paraphrase, compile or otherwise disclose documents covered by the terms of this Order, or any information contained therein, shall be filed and maintained with the Executive Secretary of the TRA in sealed envelopes marked "CONFIDENTIAL" and labeled to reflect the style of this proceeding, the docket number, the contents of the envelope sufficient to identify its subject matter, and this Protective Order. The envelopes shall be maintained in a locked filing cabinet. The envelopes shall not be opened or their contents reviewed by anyone except upon order of the TRA, Pre-Hearing Officer, or Administrative Law Judge after due notice to counsel of record. Notwithstanding the foregoing, the Directors and the Staff of the TRA may review any paper filed as CONFIDENTIAL without obtaining an order of the TRA, Pre-Hearing Officer or Administrative Law Judge, provided the Directors and Staff maintain the confidentiality of the paper in accordance with the terms of this Order.

8. Documents, information and testimony designated as CONFIDENTIAL in accordance with this Order, may be disclosed in testimony at the hearing of this proceeding and offered into evidence used in any hearing related to this action, subject to the Tennessee Rules of Evidence and to such future orders as the TRA, Pre-Hearing Officer, or the Administrative Law Judge may enter. Any party intending to use documents, information, or testimony designated CONFIDENTIAL shall inform the producing party and the TRA, the Pre-Hearing Officer, or the Administrative Law Judge, prior to the hearing on the merits of the case in the method

designated previously in this Order, of the proposed use; and shall advise the TRA the Pre-Hearing Officer, or the Administrative Law Judge, and the producing party before use of such information during witness examinations so that appropriate measures can be taken by the TRA, the Pre-Hearing Officer, or the Administrative Law Judge to protect the confidential nature of the information.

9 Except for documents filed with the Chairman of the TRA, all documents covered by the terms of this Order that are disclosed to the requesting party shall be maintained separately in files marked CONFIDENTIAL and labeled with reference to this Order at the offices of the requesting parties counsel of record

10 Nothing herein shall be construed as preventing any party from continuing to use and disclose any information (a) that is in the public domain, or (b) that subsequently becomes part of the public domain through no act of such party, or (c) that is disclosed to it by a third party, where said disclosure does not itself violate any contractual or legal obligation or (d) that is independently developed by a party, or (e) that is known or used by it prior to this proceeding. The burden of establishing the existence of (a) through (e) shall be upon the party attempting to use or disclose such information

11 Any party may contest the designation of any document or information as CONFIDENTIAL by filing a motion with the TRA, Pre-Hearing Officer, Administrative Law Judge or the courts, as appropriate, for a ruling that the documents information, or testimony should not be so treated. All documents, information and testimony designated as CONFIDENTIAL, however, shall be maintained as such until the TRA, the Pre-Hearing Officer, the Administrative Law Judge, or a court orders otherwise. A motion to contest must be filed not later than fifteen (15) days prior to the Hearing on the Merits. Any reply from the Company seeking to protect the status of their CONFIDENTIAL INFORMATION must be received not later than ten (10) days prior to the Hearing on the Merits. Motions made and subsequent Replies

received with the ten (10) days prior to the hearing on the Merits shall be presented to the Authority at the Hearing on the merits for a ruling

12. Nothing in this Order shall prevent any party from asserting any objection to discovery other than in objection based upon grounds of confidentiality

13 Non-party witnesses shall be entitled to invoke the provisions of this Order by designating information disclosed or documents produced for use in this action as CONFIDENTIAL and by filing an appropriate motion with the TRA, in which event the provisions of this Order shall govern the disclosure of information or documents provided by the non-party witness

14. No person authorized under the terms herein to receive access to documents, information, or testimony designated as CONFIDENTIAL shall be granted access until such person has complied with the requirements set forth in paragraph 4 of this Order

15 Any person to whom disclosure or inspection is made in violation of this Order shall be bound by the terms of this Order

16. Upon an order becoming final in this proceeding or any appeals resulting from such an order, all the filings, exhibits and other materials and information designated CONFIDENTIAL and all copies thereof shall be returned to counsel for the party who produced (or originally created) the filings, exhibits and other materials, within fifteen (15) days or counsel in possession of such documents shall certify to counsel for the producing pair that all the filings, exhibits and other materials, plus all copies or extracts from the filings, exhibits and other materials and all copies of the extracts from the filing, exhibits and other material thereof have been destroyed

17. After termination of this proceeding, the provisions of this Order relating to the secrecy and confidential nature of CONFIDENTIAL DOCUMENTS, information and testimony

shall continue to be binding upon parties herein and their officers, employers, employees, agents, and/or others for five years unless this Order is vacated or modified.


18. Nothing herein shall prevent entry of a subsequent order, upon an appropriate showing, requiring that any documents, information or testimony designated as CONFIDENTIAL shall receive protection other than that provided herein.

19. That any party aggrieved with the Authority's decision in this matter may file a petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order.

Entered this ____ day of _____, 2005.

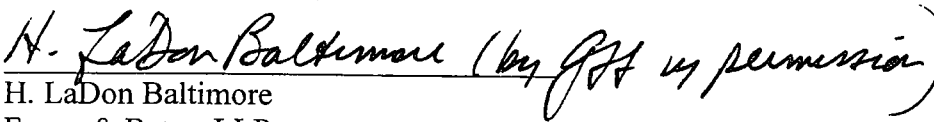
Pat Miller, Chairman
Tennessee Regulatory Authority

Approved for Entry:



Guilford F. Thornton, Jr.
Stokes Bartholomew Evans & Petree
424 Church Street, Suite 2800
Nashville, TN 37219

Counsel for Citizens Telecommunications
Company of Tennessee



H. LaDon Baltimore (by JFF in permission)
Farrar & Bates, LLP
211 Seventh Avenue North
Nashville, Tennessee 37219

Counsel for Ben Lomand Communications, Inc.

CITIZENS TELECOMMUNICATIONS COMPANY OF TENNESSEE

D/B/A

FRONTIER COMMUNICATIONS OF TENNESSEE

TESTIMONY OF J MICHAEL SWATTS

CASE NO 03-0021

FEBRUARY 14, 2005

Q PLEASE STATE YOUR NAME, BUSINESS ADDRESS, EMPLOYER AND TITLE

A My name is James Michael Swatts My business address is 300 Bland Street, Bluefield, West Virginia 24701 I am employed by Citizens Telecom Services Company LLC I am the State Governmental Affairs Manager for seven southeastern states including Tennessee In Tennessee, Citizens operates two ILECs – Citizens Telecommunications Company of Tennessee, LLC d/b/a Frontier Communications of Tennessee (“Frontier”) and Citizens Telecommunications Company of the Volunteer State, LLC d/b/a Frontier Communications of the Volunteer State

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, TELECOMMUNICATIONS BUSINESS EXPERIENCE AND PRIMARY JOB RESPONSIBILITIES

A I received an A S degree in Electrical Engineering and a Bachelor of Arts degree from Bluefield State College I began my telecommunications career in 1971 in the Engineering department Over the past 33 years, I have held various management positions in Engineering, Public Affairs, Legislative Affairs and Regulatory From 1986 to 1993, I was responsible for all legislative and regulatory functions in West Virginia and Virginia In 1994, I became Regulatory Director for West Virginia and Tennessee In the mid-90’s, when Frontier engaged in the long distance resell business nationwide, I assumed regulatory responsibility for the southeastern United States Following acquisitions in the mid-west, I had regulatory and legislative responsibilities for the state of Nebraska for a period of time

My primary job responsibilities include complete regulatory and legislative oversight consisting of docket management, external reporting, regulatory compliance, industry relations and tariff filings. I also advocate the Company's policies and positions through informal meetings and formal proceedings before the various state regulatory and legislative agencies.

Q WHO ARE THE PARTIES IN THIS PROCEEDING?

A Frontier is an incumbent local exchange telephone company ("ILEC") as defined in T C A § 65-4-101, serving customers in White County/Sparta, Warren County/McMinnville, Weakley County, Putnam County, and Cumberland County. Frontier is regulated by the TRA pursuant to T C A §§ 65-4-101 and 65-4-104.

Frontier faces stiff competition from Ben Lomand Communications, Inc. ("BLC") in McMinnville and Sparta, Tennessee. BLC is a competing local telephone exchange company ("CLEC"), as defined in T C A § 65-4-101, serving customers in Sparta and McMinnville. The price floor set forth in T C A § 65-5-208(c) does not apply to CLECs such as BLC. BLC's principal place of business is 1111 Smithville Highway, McMinnville, Tennessee 37110.

BLC is a wholly owned subsidiary of Ben Lomand Rural Telephone Cooperative (“Ben Lomand”). Ben Lomand is a telephone cooperative as defined by T.C.A. § 65-29-102 and as such, it is largely unregulated by the TRA.¹

Q WHAT IS THE PRIMARY ISSUE IN THIS CASE, AS YOU UNDERSTAND IT?

A To determine if Frontier is entitled to an exemption from the price floor now established in T.C.A. § 65-5-108(c) (formerly T.C.A. § 65-5-208(c)) with respect to its tariffed offerings in McMinnville and Sparta, Tennessee. This statute provides that such an exemption shall be granted “[w]hen shown to be in the public interest.” My understanding is that the price floor is defined as “the incumbent local exchange telephone company’s tariffed rates for essential elements utilized by competing telecommunications service providers plus the total long-run incremental cost of the competitive elements of the service.”

Q WHY DOES FRONTIER BELIEVE THAT THE PUBLIC INTEREST WILL BE SERVED BY THE REQUESTED EXEMPTION?

A T.C.A. § 65-4-123 sets forth Tennessee General Assembly’s legislative intent that the “policy of this state is to foster the development of an efficient, technologically advanced, statewide system of telecommunications services **by permitting competition in all telecommunications services markets**” (emphasis added). As is more fully set forth

¹ T.C.A. § 65-29-130 limits the TRA’s regulation of telephone cooperatives to establishment of territorial boundaries, hearing and determining disputes between telephone cooperatives and disputes involving territorial boundaries, and the approval of sales and purchases of operating telephone properties.

below, BLC has entered the McMinnville and Sparta markets, and Frontier is no longer the dominant carrier in McMinnville and Sparta. Moreover, Frontier is currently unable to effectively compete with BLC for landline business.

The statutory price floor prevents incumbent LECs from lowering rates to the point CLECs could not compete. In other words, the price floor was designed to protect against predatory pricing, which as explained below, is impossible under the conditions that now apply in McMinnville and Sparta. Conversely, the ability for a local exchange company to file for an exemption from the statutory price floor was also provided for a purpose, to prevent a lightly regulated CLEC from establishing rates that establish barriers for the LEC to be competitive. That is the very situation in McMinnville and Sparta.

BLC is the wholly owned subsidiary of subsidiary of Ben Lomand, a well-funded, highly-subsidized, lightly-regulated cooperative, is not bound by price floors.

It is not merely the presence of competition that Frontier is relying upon, it is the impact of the additional competition that the granting of Frontier's petition will stimulate that creates public interest benefits, and the absence of Frontier's ability to engage in effective competition that creates public interest detriments. Granting this exemption is clearly in the public interest. The customer directly benefits from the resulting lower prices. Also, if Frontier continues to be restricted in how it prices services then it will continue to lose significant market share as a result of regulatory barriers.

It is also contrary to the public interest in a competitive situation to hold only one competitor's prices at an arbitrary minimum level. Economic theory holds that in the case of perfect competition, prices tend toward short-run, not long run, marginal costs. If there are only two competitors and one competitor's prices are artificially propped up above short-run marginal costs, the other competitor can and will take advantage of "umbrella" pricing because it has no need to reduce prices more than a very short distance below the competitor's umbrella. This situation denies the benefits of competition to consumers and is contrary to the public interest. It also puts the ILEC in a position that prevents it from being competitive, which is absolutely not in the public interest.

BLC has taken a large portion of Frontier's customer base and is providing all telecommunications services to those customers. This is clear evidence that every service is competitive. Severe market loss is the clearest indicator that competition exists. When a competitor takes away basic residential and business access line customers, that situation makes all other services competitive by definition because they depend upon the basic access line.

Q DOES COMPLIANCE WITH T C A § 65-5-108 (c) IMPAIR FRONTIER'S ABILITY TO COMPETE WITH BLC?

A Yes

Q EXPLAIN?

A Frontier's witness Randall Brockman will testify that Frontier incurs considerable expense each time it prepares a cost study. The TRA requires such a study each time a tariff is filed to change a rate. This is a function that is not required by the competition, thus a cost they avoid when making rate changes. In addition to the cost, it takes considerable time to prepare a cost study. Frontier has a small costing group which supports 24 different jurisdictions. Consequently they must schedule their work on a priority basis. This makes it impossible for Frontier to react to changing market conditions in a highly competitive market like McMinnville and Sparta. The fact that BLC avoids the cost and scheduling delays associated with performing cost studies gives them an unfair competitive advantage. A waiver of the price floor exemption would place us on a level playing field with BLC and the benefactor would clearly be the customer.

Q WOULD GRANTING THE RELIEF REQUESTED RESULT IN PREDATORY PRICING?

A. Absolutely not. This exemption has nothing to do with predatory pricing. It, however, does go to the heart of competitive pricing. It is important to note that if Frontier does not provide the customer dial tone, then Frontier cannot sell them any vertical or advanced services. Our ability to price dial tone service below the statutory price floor provides us the ability to establish the "gateway" with that customer which is absolutely essential in order to offer full panoply of ancillary and enhanced services. In competitive situations, it is often necessary to develop "loss leaders" or critical services priced at or below costs in order to have the ability to attract and provide the more profitable services customers demand. Such pricing can be seen every day in competitive industries.

Although the competitive market cannot be fully predicted, the dial tone line is likely to be our "loss leader" Without competitive dial tone service rates Frontier has no competitive chance

In addition, it is impossible to engage in predatory pricing unless two conditions are met (1) there must be a reasonable expectation that predatory pricing will drive the competitor out of the market, and (2) there must be a further expectation that prices could thereafter be raised to monopoly levels Neither condition is met in this situation BLC has already sunk its investment in physical plant in McMinnville and Sparta Reducing prices below the statutory floor will not cause BLC to abandon its plant Instead, the only reasonable expectation is that BLC will itself continue to compete – possibly through price drops of its own, or possibly through the introduction of new services, both of which would benefit consumers Even making the unreasonable assumption that BLC would abandon its investment, it would be impossible for Frontier to complete the second half of the predatory pricing equation and raise prices to monopoly levels If Frontier raised prices to such levels, BLC without significant cost could and would reenter the market

Q WHAT SERVICES DOES FRONTIER SEEK TO EXEMPT FROM THE PRICE FLOOR?

A All tariffed services offered in McMinnville and Sparta should be exempted because of the highly competitive nature of Frontier's business in McMinnville and Sparta Frontier's primary interest is in business and residence access line service

Q AT WHAT PRICE DOES FRONTIER CONTEND IT SHOULD BE ALLOWED TO PRICE ITS SERVICES?

A Frontier believes that, given the market conditions that exist in these areas, the market should dictate prices rather than regulated methodologies. Frontier should be allowed to price its offerings to meet or beat the prices offered by BLC.

Q WILL FRONTIER CONTINUE TO FILE TARIFFS FOR RATES EVEN IF THE EXEMPTION FROM THE PRICE FLOOR IS GRANTED?

A In the event that Frontier seeks to change its rates exempted from the price floor, Frontier agrees to continue to file tariffs and other materials as required by law in support of such rate changes.

Q HAS THE TRA MADE ANY OTHER RULINGS WITH RESPECT TO THE COMPETITIVE ENVIRONMENT IN MCMINNVILLE AND SPARTA?

A Yes. In at least four separate recent cases, the TRA has recognized that, because Frontier faces stiff competition from BLC, it should be allowed to offer incentives to customers in McMinnville and Sparta that are not available to Frontier's customers in other parts of Tennessee. These instances are as follows:

a In TRA Docket Number 00-00965, the TRA approved a tariff filing by Frontier that established a lower Automatic Access Line ("AAL") rate for business customers in McMinnville and Sparta than Frontier charges customers in its other Tennessee exchanges.

b In TRA Docket Number 00-00963, the TRA also approved a special promotion that waived installation charges for customers specifically in McMinnville and Sparta.

c In TRA Docket Number 02-00088, the TRA approved a promotion to waive non-recurring charges associated with basic local service for customers in the McMinnville and Sparta exchanges, which mirrored the previous promotions offered to those customers and approved by the TRA

In this case, the Authority held “the competitive pressure prevalent in the McMinnville and Sparta exchanges is sufficient justification for limiting the offer to these two exchanges ”

d In TRA Docket Number 02-001221, the TRA approved special rates for Versaline and Business Flat Rate Service to Frontier’s customers in McMinnville and Sparta

Despite the ability to offer these rates, Frontier has continued to lose business to BLC

Q WHY HAS FRONTIER OPTED TO REQUEST A WAIVER OF THE STATUTORY PRICE FLOOR INSTEAD OF CONTINUED USE OF PROMOTIONAL OFFERINGS OR OFFERING BUNDLES OF PRODUCTS AND SERVICES?

A Promotional offerings are designed and even required by the TRA to be short term in duration Continual use of special promotions in a competitive situation is ineffective and inefficient Each promotion has to be designed, approved, marketed and monitored which is a drain on human and financial resources Moreover, because a promotional offering is a short-term offering, it must be advertised as such A short-term promotional price cannot compete with a long-term similar price offered by a competitor

Bundling of products is becoming more appealing to customers but bundles alone are not attractive in a highly competitive situation where the competition can lure customers to

their network through low dial tone rates. In a competitive situation there must be a level playing field where all parties compete on equal footing. Consumers are reluctant to accept bundles that may include more features or services than they need. BLC is not requiring its customers to accept bundles. Any regulatory barriers on a single party can be devastating.

In summary, promotional and bundled offerings cost more to the company and offer less to the consumer than long-term prices offered by a competitor on an a la carte basis. Our competitor does not need to rely upon these mechanisms to attract customers. Therefore, in order to be attractive, promotional prices and bundles must be established at significantly lower price levels than the long-term a la carte prices offered by BLC. Frontier would therefore be unfairly and uneconomically faced with both lower revenues and higher costs than its competitor, which is free to set long-term a la carte prices regardless of the statutory price floor.

Q HOW DOES FRONTIER PROPOSE TO MAKE UP FOR LOST REVENUES?

A Citizens will recover some of the revenues lost to below cost pricing by establishing that critical "gateway" to the customer so enhanced services, DSL, Internet, voice mail, long distance and many other demand services which are priced above costs can be sold. If the price floor is not removed, Frontier will continue to see a rapid erosion of revenues, which could result in filing for rate relief, which is not in anyone's best interest.

Ultimately, however, it cannot be guaranteed that Frontier will make up all the lost revenues. That is the nature of competition. Frontier and the Authority are faced with a choice in this situation – the certainty of losing all of the revenues from most of Frontier’s McMinnville and Sparta customers, versus the possibility of losing only some of the revenues by allowing Frontier the ability to compete on a level playing field with BLC. If Frontier loses all of the revenues from most of its customers in McMinnville and Sparta, it is far more likely that Frontier will be compelled to seek recovery of its loss from its customers in other areas.

Frontier may not be able to recover the bulk of any revenues lost to competition. The loss of cash flows will directly reduce the ability of Frontier to meet the capital expenditures necessary to support the existing infrastructure of its telecommunications network and the ability to introduce new technology in the form of new and enhanced products and services to customers in a timely manner. In addition, the cost of any stranded investment in telecommunications plant may result in higher embedded loop costs over the Company’s remaining access lines and possibly a long-term financial impact on the costs associated with the Federal Universal Service High Cost Fund.

Q WHAT EVIDENCE DOES FRONTIER HAVE THAT IT HAS LOST BUSINESS TO BLC?

A The following chart indicates the access lines activity for Frontier in McMinnville and Sparta as of December 31 of each year since 1999 through 2004. This is a clear indication that Frontier has lost business to BLC.

# Access Lines	McMinnville	Sparta	Total
12-31-99	7,886	2,412	10,298
12-31-00	4,991	2,513	7,504
12-31-01	3,354	1,631	4,985
12-31-02	2,520	1,202	3,722
12-31-03	2,601	1,219	3,820
12-31-04	2,454	1,214	3,668

It is also important to note that each time Frontier loses a customer that uses Frontier's basic flat rate service, Frontier loses additional services that customer may be buying from Frontier as well as the opportunity to sell that customer additional discretionary services and features to supplement the basic service (e.g. call waiting, caller id, voice mail, ADSL). These additional features and services represent a broad revenue stream and are generally more profitable for Frontier than the basic flat rate service. In addition, Frontier loses all associated USF support associated with each access line it loses.

Q ARE FRONTIER'S PRICES FOR SOME SERVICES IN SPARTA AND MCMINNVILLE ALREADY DIFFERENT FROM THE PRICES FOR SIMILAR SERVICES ELSEWHERE IN TENNESSEE?

A Yes

Q WHY?

A It is not unusual for telephone companies to have different rates for different exchanges within a given jurisdiction. In recent past, CTC-TN classified its exchanges by different rate groups and the rates for basic access were different in each rate group. In fact, CTC-VS currently has different rate groups in TN. Over the years, CTC-TN had merged rate

groups in order to standardize rates primarily for administrative reasons. However, in the face of competition in McMinnville and Sparta, CTC-TN found it necessary to lower rates in certain exchanges to remain competitive and to prevent erosion of market share. In a competitive situation, it is absolutely necessary to retain the basic access line. Without the basic access line, the "gateway", it is impossible to sell other telecommunications services which typically have higher profit margins.

Frontier has faced similar situations in other jurisdictions and has been allowed to deaverage rates by other regulatory agencies for the same reason cited in TN by the TRA. In a competitive situation, it is absolutely necessary to lower prices to meet competitive pressures. The TRA realized that a LEC would be placed in an unfair disadvantage if it enforced monopolistic practices in a highly competitive environment.

As is evidenced by the TRA dockets referenced above where Frontier has been allowed to offer various special promotions and modify its tariff, Frontier's price adjustments in McMinnville and Sparta were permitted by law and have proven to be good for the consumer. If Frontier was not allowed to reduce rates then there would be no real price competition, because the "lightly regulated" competitor could safely price just below an "umbrella" where Frontier's price would be frozen. Such action would shut Frontier out of the market not to mention the fact that it would be anticompetitive not to allow Frontier to "price compete". No regulatory requirement of which I am aware would require Frontier to drop prices across the State of Tennessee in order to offer competitive rates with BLC in Sparta and McMinnville. Such a requirement would be a penalty and a

near-insuperable hurdle that would prevent customers in Sparta and McMinnville from getting the benefits of price competition

Q DOES THIS COMPLETE YOUR TESTIMONY?

A Yes

1

2

3

CITIZENS TELECOMMUNICATIONS COMPANY OF TENNESSEE, INC

4

D/B/A

5

FRONTIER COMMUNICATIONS OF TENNESSEE

6

TESTIMONY OF RANDALL J. BROCKMANN

7

CASE NO. 03-0021

8

FEBRUARY 14, 2005

9

1 Q **PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.**

2 A My name is Randall James Brockmann and my business address is Frontier Corporation,
3 180 South Clinton Avenue, Rochester, New York 14646-0500 I am the Manager of
4 Economic Costing for Frontier Corporation, a Citizens Communications Company
5

6 Q **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND,**
7 **TELECOMMUNICATIONS BUSINESS EXPERIENCE AND PRIMARY JOB**
8 **RESPONSIBILITIES.**

9 A I received my MBA in Finance and Entrepreneurship from the William E Simon
10 Graduate School of Business at the University of Rochester in June 1998 At that time
11 I was also inducted into Beta Gamma Sigma, the National Honor Society of Collegiate
12 Schools of Business I received a Bachelor of Science degree in Accounting with high
13 honors from Rochester Institute of Technology in August 1977 I am a Certified Public
14 Accountant in the State of New York and hold memberships in the New York State
15 Society of Certified Public Accountants and the American Institute of Certified Public
16 Accountants
17

18 I began my 19-year telecommunications career with Frontier in June 1986 as a Staff
19 Analyst in the Regulatory Department After a couple of years in this position, I was
20 promoted to Supervisor of Financial Reporting and Budgeting for Rotelcom, a
21 telecommunications subsidiary of Frontier Telephone and after one year in that position,
22 was promoted to Manager of Regulatory Reporting at Frontier Telephone In November
23 1998, I became Manager of Regulatory Planning and assumed my current position as the

1 Manager of Economic Costing in September 2001. In my current position I manage the
2 service cost study function for all the Frontier local exchange operating properties. This
3 includes cost study responsibilities for 56 legal entities operating in 25 states,
4 representing over 945 wire centers. My responsibilities also include managing the
5 preparation of and supporting cost study filings before State and Federal regulators, as
6 required. Prior to my work experience at Frontier, I held various management positions
7 both in Public Accounting and Private Industry.

8
9 **Q HAVE YOU TESTIFIED IN OTHER TELECOMMUNICATION COST**
10 **PROCEEDINGS?**

11 **A**Yes. I have testified before the New York State Public Service Commission in several
12 New York State cost proceedings. In June 1996, in the Loop Resale proceeding, Case 95-
13 C-0657, I prepared direct testimony and exhibits that detailed the total element long run
14 incremental (TELRIC) unbundled network element (UNE) costs of Frontier Telephone of
15 Rochester. In May 1999, in the Reciprocal Compensation proceeding, Case 99-C-0529, I
16 prepared direct testimony and exhibits regarding the incremental network costs resulting
17 from increasing traffic volumes associated with internet bound messages. In July 1999,
18 in the Directory Assistance proceeding, Case 99-C-1357, I prepared direct testimony and
19 exhibits for the provision of Directory Assistance Listing Services and Directory
20 Publishing Listing Service for Frontier Telephone of Rochester. In January 2005, I
21 prepared testimony for switching and transport cost studies for Frontier Communications
22 of California.

1

2 Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

3 A The purpose of my testimony in this proceeding is twofold. First, I will provide an
4 estimate of the costs of the Company to prepare and file service cost studies to support
5 Regulatory tariff filings for Citizens Telecommunications Company of Tennessee, LLC
6 d/b/a Frontier Communications of Tennessee. Second, I will provide the results of
7 Frontier Communications of Tennessee service cost studies for the provision of basic
8 business and Centrex "Versaline" service in the wire centers of McMinnville and Sparta,
9 Tennessee. The results of these cost studies indicate that current Frontier pricing is not
10 below the computed cost floors for these services.

11

12 Q **PLEASE DESCRIBE THE NATURE AND CONTENT OF YOUR ATTACHED**
13 **EXHIBIT RELATING TO THE COSTS OF PREPARING STUDIES.**

14 A On Exhibit A, I have provided a range of the estimated total Company costs to prepare
15 and file a typical telecommunications service cost study. The results of this analysis
16 indicate the average estimated cost to the Company to prepare and file compliance service
17 cost studies can range from \$7,650 to \$12,600 per study. This cost estimate was based on
18 a review of all detailed procedural steps required to accurately develop, prepare, review
19 and file a complete cost study that could be used by Company to support cost floors/price
20 floors for a given tariff service as required under the current regulations of the Tennessee
21 Regulatory Authority. The cost estimate used both minimum and maximum hours of
22 internal resource time required to complete the specific project tasks identified. Because
23 each cost study is unique, the resource time commitment can vary significantly based on

1 the network service or element(s) being studied. In addition, many cost studies require
2 resource time of other Company subject matter experts, such as Outside Plant, Central
3 Office Switch and Trunking and Transmission Engineers. Their costs were not
4 considered in this estimate. The Company has previously looked into pricing of third
5 party consultants to do some regulatory cost study compliance work. In each case we
6 have found that third party price estimates to perform similar compliance cost studies
7 significantly exceed the internal cost of completing them.

8 In conclusion, the cost of preparing service cost studies to meet price floor compliance
9 requirements is substantial for Frontier Communications of Tennessee. Competitive local
10 service providers, like Ben Lomand Communications, Inc. who are not subject to these
11 price floor cost study filing requirements, are at a competitive cost advantage.

12

13 **Q HOW DOES THE REQUIREMENT OF COST STUDIES TO SUPPORT**
14 **CHANGES TO THE PRICE OF A TARIFFED SERVICE PLACE THE**
15 **COMPANY AT A COMPETITIVE DISADVANTAGE?**

16 **A** The costs referenced above and resulting time delays to implement changes to our tariffed
17 prices can place the Company at a significant competitive disadvantage. As with any new
18 product offering, there is what's known in Marketing as the first-mover advantage. The
19 first-mover advantage means those Companies first to market with a new service or
20 enhancement to an existing service capture the bulk of the market share for that new
21 service while other service providers are still waiting to bring their product to market.
22 This becomes a barrier to entry because the initial market demand is filled and coupled
23 with a perceived customer cost to changing service providers, the demand expectations

1 for the new service or enhancement may never live up to its full potential. This has a
2 two-fold negative impact from a costing perspective. First if the cost study uses
3 forecasted demand as the basis for allocation of costs, the cost per unit goes up as the
4 demand forecast decreases. Secondly, if the cost per unit increases due to lower than
5 expected demand projections, then the price floor raises making it that much more
6 difficult to compete in the marketplace, where the incumbent local exchange service
7 provider is held to a regulatory standard that requires it cannot price its service below its
8 computed price floor.

9
10 **Q PLEASE DESCRIBE THE NATURE AND CONTENT OF YOUR ATTACHED**
11 **EXHIBITS AND SCHEDULES RELATING TO BASIC BUSINESS AND**
12 **VERSALINE CENTREX SERVICE.**

13 **A** On Exhibit 1, I have summarized the results of the cost studies for the basic business (B1)
14 service and the Versaline Centrex service. These cost studies looked at the basic network
15 components required to deliver the service. These components include the local loop, the
16 line port, the switching features and software right to use (RTU) fees, local switching
17 usage, and an allocation of interoffice switching and transport costs.

18 As summarized in Exhibit 1, these costs are expressed in terms of a monthly recurring
19 charge (MRC) for each service. The loop cost results were computed using a Total
20 Service Long Run Incremental Cost (TSLRIC) methodology. The TSLRIC costing
21 approach is the cost modeling standard for the Company's retail product offerings while
22 the Total Element Long Run Incremental Cost (TELRIC) methodology is the cost
23 modeling standard for the Company's unbundled network element offerings. Based on

1 my understanding of the Tennessee Statute, the cost floor requirement for retail services
2 should be based on a TSLRIC costing methodology
3

4 **Q WHAT ARE THE PRIMARY COSTING DIFFERENCES BETWEEN THE**
5 **TSLRIC AND TELRIC COSTING METHODOLOGIES?**

6 A The primary difference between a TSLRIC and TELRIC costing methodology is that
7 TSLRIC is based on allocating the cost of a network element over the capacity of that
8 network element, whereas TELRIC is based on allocating the cost of a network
9 component over the actual demand associated with that network element Another
10 difference is that under TSLRIC methodology, service specific overheads are included as
11 part of a specific network element's cost while under TELRIC methodology, both service
12 specific and common corporate overhead costs are included in the specific network
13 element's cost
14

15 **Q HOW WERE THE LOOP COSTS COMPUTED?**

16 A The loop costs were computed using the Company's forward-looking loop cost proxy
17 model, the Cost Map Wireline Model This loop cost proxy model was originally
18 licensed for use by the Company from Indetec International, Inc in 1999 Today the cost
19 model is maintained, licensed and marketed by CostQuest Associates in Cincinnati, Ohio
20 In addition to Citizens Communications, the Cost Map Wireline Loop Model is currently
21 being used by several international telecommunications companies and is the primary
22 loop costing proxy model for BellSouth
23

1 The Cost Map Wireline Model (“CMWM”) calculates the economic value of the
2 investment in the various wireline network components required to connect
3 customers to their serving central office and to provide a wide-range of services to
4 these customers. The model assumes the installation of forward-looking but
5 commercially available telecommunications technologies and uses widely
6 accepted engineering practices and procedures. Input tables within the model
7 allow users to enter the equipment and material prices, labor rates, and contractor
8 costs that a company actually incurs supplying loop facilities and equipment in the
9 states where the company operates

11 The CMWM employs a similar modeling philosophy as other cost proxy models
12 in terms of “building” a wireline network in geographic space. The model
13 determines where customers are actually located within a wire center and lays out
14 the necessary network to connect these customers to each other and to the serving
15 central office. However, the CMWM takes the next step and lays out the *actual*
16 path the network is *likely* to take. The CMWM network follows the actual roads
17 from the central office to each customer’s premise and does not use a modeling
18 abstraction such as “square” or “rectangular” serving areas. The customers are
19 placed in the locations that are actually occupied and the CMWM lays the plant
20 required to serve such customers in these locations. Hence, each wire center will
21 have its own unique network configuration. In those instances that customer
22 locations cannot be accurately assigned to the correct street segment, a surrogate
23 location process is used similar to that employed by other cost proxy models

1 However, since the model uses Citizens' service record addresses, the bulk of
2 customer locations can be accurately assigned to the correct street segment
3 Surrogation is thus used to locate those few customers that are not included in the
4 geocoding process (i.e., for post office boxes or rural route addresses). In fact, the
5 use of Citizens' specific customer data, including each customer's current service
6 portfolio, sets the CMWM apart from other cost proxy models and makes it
7 specific to Citizens

8
9 The CMWM enables the user to calculate the incremental investment associated
10 with supplying a wide range of services using local loop facilities. The model
11 produces the incremental investment values necessary for supporting either the
12 total service long-run incremental cost ("TSLRIC") of loops associated with a
13 company's retail offerings or the total element long-run incremental cost
14 ("TELRIC") of its various unbundled loop offerings

15
16 At its core, the CMWM is a "spatial" model in that it determines where a
17 company's customers are actually located on a map of a wire center and "lays"
18 cable along the roads of that wire center to serve these customers. In fact, a cable
19 path can literally be traced from each customer's premise all the way back to the
20 serving central office, a path that follows the actual roads in the wire center

21
22 Serving areas are determined for a wire center based on a Minimum Spanning
23 Road Tree (MSRT) algorithm. Simply, the MSRT is the shortest road path that

1 connects a set of customer locations. Once a MSRT is determined for those
2 customers in excess of a user-defined, road feet distance from the central office
3 (e.g., 12,000 feet), branches of the tree are “broken off” to form Carrier Serving
4 Areas (CSAs), based on a set of engineering design constraints. A similar process
5 for customers within the user-defined, road feet distance from the central office
6 yields Allocation Areas. Components such as Digital Loop Carriers (DLCs) and
7 Feeder Distribution Interfaces (FDIs) are then located with each serving area. The
8 MSRT within each serving area then becomes the distribution cable path. A
9 MSRT for feeder plant is also determined that links the DLCs to the CO as well as
10 linking the FDIs in the Allocation Areas to the CO. Once the spatial layout of the
11 network is determined, the CMWM next “configures” the network. In essence,
12 this entails the determination of, for example, what size of cable can be used to
13 connect a particular FDI with the set of Distribution Terminals it serves, what
14 terrain type will a given cable route pass through, and how many shelves and line
15 cards are needed in a particular DLC unit. Once the network is configured or
16 provisioned in this manner, the model then determines the dollar investment
17 associated with each component in the network, not only by component type, for
18 example, a DLC unit, but also by component location. That is, not only can one
19 trace the cable route taken from the CO to a given customer, but one can also trace
20 the investment dollars associated with each cable segment and network element
21 along this route. This capability yields investment values at a finely disaggregated
22 level. The user can determine the investment required to supply basic voice grade

1 service in a given wire center, and even the investment required to supply basic
2 voice grade service to a specific customer

3
4 The CMWM calculates loop investment by material only investment, EF&I
5 investment (“engineered, furnished and installed”), and material plus EF&I
6 investment, so called “installed investment ”

7
8 Annual charge studies are performed to develop the applicable investment-related
9 operating and capital expense factors that are applied to the investment components to
10 arrive at annual and monthly unit TSLRIC and TELRIC costs Citizens includes in its
11 annual cost factors (ACF) cost items such as levelized return, depreciation, maintenance,
12 and property taxes For TSLRIC service specific overheads are included and for
13 computation of TELRIC costs, corporate overheads are also included Citizens used the
14 FCC overall prescribed rate of return of 11.25%, and used estimated economic
15 depreciation lives in its ACF calculations

16

17 **Q HOW DID FRONTIER COMPUTE ITS SWITCHING COSTS?**

18 **A** Frontier used the Telcordia Switching Cost Information System (SCIS) cost models to
19 compute the monthly recurring costs for both the traffic sensitive and non-traffic sensitive
20 components of the switch These include the line port costs and port additives for the
21 Versaline Centrex features, as well as the usage component for each service The
22 software right-to-use fees were added to these costs to complete the cost of service

23

1 **Q PLEASE DESCRIBE YOUR TELRIC STUDY FOR SWITCHED PORTS?**

2 A The port, by definition, is the portion of the subscriber loop from the vertical side
3 of the main distribution frame (MDF) to the first point in the switch with a unique
4 address (calling number or line equipment number) where dial tone is available
5 To determine the line termination cost (port cost), we used results produced by a
6 software package designed specifically for this type of cost assignment, known as
7 the Switching Cost Information System or “SCIS” model
8 Based on company specific central office input data, the SCIS Model Office (MO)
9 software assigns and allocates switch investment costs to specific functions
10 performed by the switch The SCIS-MO model uses standard central office and
11 traffic engineering concepts to ensure that the same engineering criteria developed
12 in the design process are used for component cost allocation The engineered cost
13 for each host central office is split into identified cost categories according to the
14 physically significant functions of each switching component (e g , call setup,
15 minimum investment per line, etc)
16

17 **Q WHAT IS THE DIFFERENCE BETWEEN THE TWO SCIS MODELS:**
18 **SCIS-MO AND SCIS-IN?**

19 A There are two separate SCIS models SCIS Model Office (MO) and SCIS
20 Intelligent Network (IN) SCIS Model Office output is used to provide the total
21 investment cost allocated between the traffic sensitive components (MOU) and
22 the non-traffic sensitive components (the line and trunk ports) SCIS MO output
23 is also used as an input for the SCIS IN model SCIS IN is used to provide unit

investment costs associated with features and other hardware and switch processor functions SCIS IN was also used to develop the unit investments required for line to line, line to trunk, trunk to line, and trunk to trunk switching These investments along with a per call setup investment, represent the cost elements necessary to compute the usage sensitive costs on a per minute of use (MOU) basis

Q WHAT IS REQUIRED TO RUN THE MODEL?

A Before SCIS-MO can be run, there is user required set-up data that needs to be input, such as the percentage discount that applies to Frontier Telecommunications on the switch technology being modeled, the state in which the model is being run, user defined choices for calculated model investment results (e g , hosts without remotes or with remotes), and a user defined choice to run the model at demand or capacity In addition, there are input spreadsheets that vary dependent on the switch technology, such as the Lucent 5ESS, or the Nortel DMS-10 and DMS-100 For these studies we used inputs for the Nortel DMS-10 and DMS-100 switches we have in use in Tennessee The user specific switch input data was collected from our traffic and switch engineering operating groups

Q ONCE THE MODEL IS RUN, HOW DO YOU USE THE OUTPUT FROM SCIS MO?

1 A Once inputs are calculated, the outputs from the model can be downloaded into an
2 Excel spreadsheet. The output can be displayed as a grand weighted average of all
3 the hosts and remotes, or on a per node basis. Specific grand weighted
4 information is taken from the output spreadsheet, such as the minimum line
5 investment, investment per trunk in CCS, investment per line in CCS, etc. These
6 costs are used to produce unit investments for the traffic and non-traffic sensitive
7 service elements including, analog and digital ports, digital trunks, and investment
8 dollars applicable to switch usage as measured in MOU. Annual cost factors were
9 then applied to unit investment costs to convert the unit investments into annual
10 and monthly recurring costs.

11

12 Q **DOES THIS CONCLUDE YOUR TESTIMONY?**

13 A Yes it does.

14

15

16

17

18

19

20

21